

Macroeconomics, 8e (Parkin) Testbank 1

Chapter 9 Money, the Price Level, and Inflation

9.1 What is Money?

- 1) The functions of money are
- A) medium of exchange and the ability to buy goods and services.
 - B) medium of exchange, unit of account, and means of payment.
 - C) pricing, contracts, and means of payment.
 - D) medium of exchange, unit of account, and store of value.

Answer: D

Topic: *What is Money?*

Skill: *Recognition**

- 2) Which of the following does NOT describe a function of money?
- A) a unit of account
 - B) a hedge against inflation
 - C) a medium of exchange
 - D) a store of value

Answer: B

Topic: *What is Money?*

Skill: *Recognition*

- 3) Which of the following is a primary function of money?
- A) to serve as a unit of account
 - B) to serve as an encouragement to work
 - C) to reduce the burden of excessive imports
 - D) to raise funds for the government

Answer: A

Topic: *What is Money?*

Skill: *Recognition*

- 4) Barter is
- A) another type of money.
 - B) printing too much money.
 - C) the exchange of goods and services directly for other goods and services.
 - D) the exchange of goods and services for any type of money.

Answer: C

Topic: *Medium of Exchange*

Skill: *Recognition**

- 5) The most direct way in which money replaces barter is through its use as a
- A) medium of exchange.
 - B) recording device.
 - C) store of value.
 - D) unit of account.

Answer: A

Topic: *Medium of Exchange*

Skill: *Recognition**

- 6) The most direct way in which money eliminates the need for a double coincidence of wants is through its use as a
- A) medium of exchange.
 - B) standard of deferred payment.
 - C) store of value.
 - D) unit of account.

Answer: A

Topic: *Medium of Exchange*

Skill: *Recognition*

- 7) In a barter system, we would see
- A) many different units of money.
 - B) money and goods exchanged for each other.
 - C) wide-spread depository institutions.
 - D) goods traded directly for other goods and services.

Answer: D

Topic: *Medium of Exchange*

Skill: *Conceptual*

- 8) When you buy a hamburger for lunch, you are using money as a
- A) store of value.
 - B) standard of deferred payment.
 - C) medium of exchange.
 - D) unit of accounting.

Answer: C

Topic: *Medium of Exchange*

Skill: *Conceptual*

- 9) The unit of account function occurs when money serves as a
- A) means of payment.
 - B) medium of exchange.
 - C) pricing mechanism.
 - D) double coincidence of wants.

Answer: C

Topic: *Unit of Account*

Skill: *Recognition**

- 10) Which of the following applies to the use of money as a unit of account?
- I. A unit of account is an agreed measure for stating the prices of goods and services.
 - II. Using money as a unit of account creates a simplified pricing system.
 - III. Economies choose many goods as units of account.
- A) I only
 - B) II only
 - C) I and III
 - D) I and II

Answer: D

Topic: *Unit of Account*

Skill: *Conceptual*

- 11) A \$25,000 price tag on a new car is an example of money as
- A) medium of exchange.
 - B) a unit of account.
 - C) a store of value.
 - D) a time deposit.

Answer: B

Topic: *Unit of Account*

Skill: *Conceptual*

- 12) In a world with no money, costs are expressed in terms of other goods. If one video game costs two hamburgers, and a hamburger costs three sodas, how many sodas would it take to buy a video game?
- A) 6
 - B) 5
 - C) 3
 - D) $3/2$

Answer: A

Topic: *Unit of Account*

Skill: *Analytical**

- 13) Which of the following is an example of using money as a store of value?
- A) paying for a new dress with a credit card
 - B) paying cash for a new automobile
 - C) paying rent with a check on a demand deposit
 - D) keeping \$200 on hand for an emergency

Answer: D

Topic: *Store of Value*

Skill: *Conceptual*

- 14) When you keep money in a change jar to be used later, what function is it fulfilling?
- A) medium of exchange.
 - B) recording device.
 - C) store of value.
 - D) unit of account.

Answer: C

Topic: *Store of Value*

Skill: *Conceptual**

15) In the United States today, money consists of

- A) currency only.
- B) deposits at banks only.
- C) coins only.
- D) currency and deposits at banks.

Answer: D

Topic: Money in the United States Today

Skill: Recognition*

16) Which of the following correctly completes this statement? Money in the United States includes

- A) the sum of all money incomes.
- B) the cash in banks plus the sum of all checks written.
- C) the currency and bank deposits outside of banks.
- D) the sum of currency, deposits, and bonds held by the public and by the banking industry.

Answer: C

Topic: Money in the United States Today

Skill: Recognition

17) Checking deposits at banks are

- A) money.
- B) not money because they are an intangible.
- C) money only because they are insured by the FDIC.
- D) not money until they are converted into currency.

Answer: A

Topic: Money in the United States Today

Skill: Recognition*

18) M1 is a measure of

- A) money and includes both currency and checking deposits.
- B) liquidity and in which the most liquid asset is money.
- C) money and includes both savings deposits and currency.
- D) money and includes both savings deposits and money market mutual funds.

Answer: A

Topic: Money in the United States Today, M1

Skill: Recognition*

19) Which of the following is NOT included in the M1 definition of money?

- A) currency held outside banks
- B) time deposits
- C) traveler's checks
- D) checking deposits at savings and loans

Answer: B

Topic: Money in the United States Today, M1

Skill: Recognition

20) The largest component of M1 is

- A) currency.
- B) checking deposits.
- C) coins.
- D) savings deposits.

Answer: B

Topic: Money in the United States Today, M1

*Skill: Recognition**

21) The definition of M2 includes

- A) M1.
- B) savings deposits.
- C) time deposits.
- D) all of the above

Answer: D

Topic: Money in the United States Today, M2

Skill: Recognition

22) Which of the following is NOT included in the M2 definition of money?

- A) currency held by banks
- B) money market mutual fund balances
- C) savings deposits
- D) checkable deposits

Answer: A

Topic: Money in the United States Today, M2

Skill: Conceptual

23) The largest component of M2 is

- A) deposits
- B) currency
- C) money market mutual funds
- D) travelers checks

Answer: A

Topic: Money in the United States Today, M2

*Skill: Recognition**

24) Which of the following is part of M2?

- A) checks
- B) credit cards
- C) currency held inside a bank
- D) none of these are part of M1 or M2

Answer: D

Topic: Money in the United States Today, M2

*Skill: Recognition**

- 25) Comparing M1 and M2 we know that
- A) M1 is larger because it contains currency.
 - B) M2 is approximately equal to M1.
 - C) M2 is larger because it contains M1 and other assets.
 - D) M2 is larger because it contains more liquid assets than does M1.

Answer: C

Topic: Money in the United States Today, M1 and M2

Skill: Conceptual*

- 26) If you use \$500 of currency to purchase a saving deposit,
- A) M1 decreases, but M2 is unchanged
 - B) M1 decreases and M2 increases
 - C) M1 is unchanged, but M2 increases
 - D) M1 and M2 both increase

Answer: A

Topic: Money in the United States Today, M1 and M2

Skill: Conceptual*

- 27) Liquidity is the
- A) speed with which the price of an asset changes as its intrinsic value changes.
 - B) inverse of the velocity of money.
 - C) same as the velocity of money.
 - D) ease with which an asset can be converted into money.

Answer: D

Topic: Liquidity

Skill: Recognition

- 28) Liquidity is the
- A) degree to which an asset acts as money without a loss of value.
 - B) ease with which an asset can be converted into a means of payment with little loss of value.
 - C) degree to which money can be converted into an asset with little loss of value.
 - D) ease with which credit cards are accepted as a means of payment.

Answer: B

Topic: Liquidity

Skill: Recognition*

- 29) An individual wanting the most liquid asset possible will hold
- A) currency.
 - B) a savings account.
 - C) checkable deposits at a bank.
 - D) U.S government bonds.

Answer: A

Topic: Liquidity

Skill: Recognition

30) Given the list of assets below, which is the most liquid?

- A) \$500 worth of General Motors common stock
- B) \$500 worth of General Motors bonds
- C) a \$500 traveler's check
- D) a one-ounce gold coin

Answer: C

Topic: Liquidity

Skill: Recognition

31) Checks are

- A) money, as are credit cards.
- B) not money, but credit cards are.
- C) money, but credit cards are not.
- D) not money, and neither are credit cards.

Answer: D

Topic: Checks Are Not Money

Skill: Conceptual

32) Checks are

- A) the largest component of the money supply.
- B) not money.
- C) only part of M2 but not part of M1.
- D) part of M1 but not part of M2.

Answer: B

Topic: Checks Are Not Money

Skill: Conceptual*

33) Checks _____ money and checking deposits _____ money.

- A) are; are
- B) are; are not
- C) are not; are
- D) are not; are not

Answer: C

Topic: Credit Cards Are Not Money

Skill: Conceptual*

34) Checks are NOT money because they

- A) are issued by banks, not by the government.
- B) are merely instructions to transfer money.
- C) have value in exchange but little intrinsic value.
- D) are not backed by either gold or silver.

Answer: B

Topic: Checks Are Not Money

Skill: Conceptual

- 35) Credit cards are
- A) money but are not a large part of the money supply.
 - B) not money.
 - C) money and are the largest part of the money supply.
 - D) not money because they are not made of paper.

Answer: B

Topic: Credit Cards Are Not Money

Skill: Conceptual*

- 36) Using a credit card can best be likened to
- A) taking out a loan.
 - B) a barter exchange.
 - C) using any other form of money because you immediately get to take the goods home.
 - D) writing a check on your demand deposit account.

Answer: A

Topic: Credit Cards Are Not Money

Skill: Conceptual

- 37) Credit cards are NOT money because they
- A) have a value in exchange but little intrinsic value.
 - B) are not issued by the government.
 - C) do not serve as a unit of account.
 - D) are ID cards that make borrowing easier.

Answer: D

Topic: Credit Cards Are Not Money

Skill: Conceptual

- 38) Which of the following is NOT a function of money?
- A) medium of exchange
 - B) barter
 - C) unit of account
 - D) store of value

Answer: B

Topic: Study Guide Question, Barter

Skill: Conceptual

- 39) The fact that money can be exchanged for goods reflects money's role as a
- A) cause of inflation.
 - B) medium of exchange.
 - C) unit of account.
 - D) store of value.

Answer: B

Topic: Study Guide Question, Medium of Exchange

Skill: Conceptual

- 40) Money _____.
- A) is always composed of coins and paper
 - B) loses its value as it becomes older
 - C) requires a double coincidence of wants
 - D) is any commodity that is generally acceptable as a means of payment

Answer: D

Topic: *What is Money?*

Skill: *Recognition*

- 41) If an economy has no money, then all transactions must be conducted through the use of _____.
- A) credit cards
 - B) barter
 - C) debit cards
 - D) tobacco or wampum

Answer: B

Topic: *Medium of Exchange*

Skill: *Conceptual*

- 42) U.S. currency _____.
- A) is less efficient than barter
 - B) includes tobacco
 - C) is the sum of M1 and M2
 - D) is composed of the bills and coins that we use today

Answer: D

Topic: *Money in the United States Today*

Skill: *Recognition*

- 43) M1 includes all the following items except _____.
- A) checking deposits owned by individuals and businesses
 - B) traveler's checks
 - C) deposits in money market mutual funds
 - D) currency owned by individuals and businesses

Answer: C

Topic: *Money in the United States Today, M1*

Skill: *Recognition*

- 44) M2 _____.
- A) does not include currency
 - B) does not include traveler's checks
 - C) is a broader measure of money than M1
 - D) does not include checking deposits held at credit unions

Answer: C

Topic: *Money in the United States Today, M2*

Skill: *Recognition*

- 45) Liquidity _____.
- A) increases when a country owns gold
 - B) increases when a consumer has more credit cards
 - C) is how quickly an asset loses its worth
 - D) is the property of being instantly convertible into money

Answer: D

Topic: Liquidity

Skill: Recognition

- 46) In an economy, there is \$200 million in currency held outside banks, \$100 million in traveler's checks, \$250 million in currency held inside the banks, \$300 million in checking deposits, and \$600 million in savings deposits. The value of M1 is _____.
- A) \$750 million
 - B) \$1,200 million
 - C) \$1,150 million
 - D) \$600 million

Answer: D

Topic: Money in the United States Today, M1

Skill: Analytical

- 47) Sam has \$500 in traveler's checks. He cashes a \$100 traveler check, deposits \$150 into his checking account at a Savings and Loan Association, and deposits the remaining \$250 into a savings account at a credit union. Immediately, _____.
- A) M1 decreases by \$250 and M2 does not change
 - B) M1 decreases by \$400 and M2 increases by \$250
 - C) M1 does not change and M2 increases by \$250
 - D) M1 and M2 do not change

Answer: A

Topic: Money in the United States Today, M1 and M2

Skill: Analytical

- 48) A new financial innovation results in people switching their funds from checking deposits to savings accounts. The quantity of M1 _____ and the quantity of M2 _____.
- A) decreases; decreases
 - B) increases; decreases
 - C) decreases; does not change
 - D) decreases; increases

Answer: C

Topic: Money in the United States Today, M1 and M2

Skill: Conceptual

9.2 Depository Institutions

- 1) Which of the following institutions is NOT a depository institution?
- A) the U.S. Treasury
 - B) a commercial bank
 - C) a money market mutual fund
 - D) a thrift institution, such as a savings and loan association

Answer: A

Topic: Depository Institutions

Skill: Recognition

- 2) A firm that takes deposits from households and firms and makes loans to other households and firms is a
- A) usurer.
 - B) depository institution.
 - C) credit company.
 - D) stockbroker.

Answer: B

Topic: Depository Institutions

Skill: Recognition

- 3) A depository institution is best defined as
- A) as the lender of last resort.
 - B) an insurance agency, such as the FDIC.
 - C) the most powerful body within the Federal Reserve.
 - D) as an institution that accepts deposits and makes loans.

Answer: D

Topic: Depository Institutions

*Skill: Recognition**

- 4) Depository institutions
- A) make profit from the spread between the interest rate they pay on deposits and the interest rate they receive on loans.
 - B) earn profit according to how much the Federal Reserve pays them.
 - C) earn money by charging the government for their services.
 - D) earn zero profit but receive compensation by the government because their services are so valuable.

Answer: A

Topic: The Economic Functions of Depository institutions

*Skill: Recognition**

- 5) The major role of a commercial bank is to
- A) make mortgage loans.
 - B) sell shares and use the proceeds to buy stocks.
 - C) receive deposits and make loans.
 - D) restrain the growth of the quantity of money.

Answer: C

Topic: Commercial Banks

Skill: Recognition

- 6) Commercial banks do not
- A) buy U.S. government Treasury bills.
 - B) accept deposits from their customers.
 - C) make loans to creditworthy individuals and businesses.
 - D) determine what assets are money.

Answer: D

Topic: Commercial Banks

Skill: Conceptual

- 7) Banks are in business
- A) because they keep all their assets as reserves.
 - B) to maximize their reserves.
 - C) to make a profit.
 - D) to make as many loans as possible.

Answer: C

Topic: Commercial Banks

Skill: Recognition

- 8) For a commercial bank, the term "reserves" refers to
- A) a banker's concern ("reservation") in making loans to an individual without a job.
 - B) the profit that the bank retains at the end of the year.
 - C) the cash in its vaults and its deposits at the Federal Reserve.
 - D) the net interest that it earns on loans.

Answer: C

Topic: Commercial Banks

Skill: Recognition

- 9) A bank's reserves include
- A) the cash in its vault plus the value of its depositors' accounts.
 - B) the cash in its vault plus its deposits held at a Federal Reserve bank.
 - C) the cash in its vault plus any gold held for the bank at Fort Knox.
 - D) its common stock holdings, the cash in its vault, and any deposits at a Federal Reserve bank.

Answer: B

Topic: Banks' Reserves

Skill: Conceptual

- 10) Bank reserves include
- I. the cash in the bank's vault
 - II. the bank's deposits at the Federal Reserve
- A) Only I.
 - B) Only II.
 - C) Both I and II.
 - D) Neither I nor II.

Answer: C

Topic: Banks' Reserves

Skill: Conceptual*

- 11) Bank managers lend excess reserves because they want to
- A) make a profit
 - B) create new money in the economy
 - C) curry favor with borrowers
 - D) borrow money from the Federal Reserve

Answer: A

Topic: Banks' Reserves

Skill: Conceptual*

12) Of the following, the riskiest assets held by commercial banks are

- A) reserves.
- B) U.S. government bonds.
- C) U.S. government Treasury bills.
- D) commercial loans.

Answer: D

Topic: Commercial Banks

Skill: Conceptual

13) An asset category that carries the highest interest rate is

- A) checkable deposit accounts.
- B) loans.
- C) cash in the bank vault.
- D) savings deposits.

Answer: B

Topic: Commercial Banks

Skill: Conceptual

14) Which of the following statements concerning commercial banks is true?

- A) Banks need to maintain cash reserves equal to their deposits.
- B) Most banks maintain cash reserves equal to a fraction of deposits.
- C) Cash reserves earn the highest rate of return of any asset for a bank.
- D) Since the advent of the Federal Reserve, banks do not need to maintain cash reserves.

Answer: B

Topic: Banks' Reserves

Skill: Conceptual

15) Examples of thrift institutions include

- A) savings deposits and checking deposits.
- B) commercial banks, savings and loan associations, and insurance companies.
- C) savings and loan associations, savings banks, and credit unions.
- D) money market mutual funds, commercial banks, and credit unions.

Answer: C

Topic: Thrift Institutions

Skill: Recognition*

16) A credit union is

- A) a combination of credit card corporations.
- B) an depository institution owned by depositors who are members of a particular group.
- C) a thrift institution that issues credit cards.
- D) a commercial bank owned by its depositors.

Answer: B

Topic: Credit Union

Skill: Recognition*

- 17) Money market mutual funds invest in
- A) residential mortgages.
 - B) commercial real estate.
 - C) long-term government securities.
 - D) highly liquid assets.

Answer: D

Topic: Money Market Mutual Funds

Skill: Recognition

- 18) A money market mutual fund is
- A) essentially the same as a demand deposit account.
 - B) a time deposit of \$100,000 or less.
 - C) a time deposit of more than \$100,000.
 - D) a depository institution that sells shares and buys securities such as U.S. Treasury bills.

Answer: D

Topic: Money Market Mutual Funds

Skill: Conceptual

- 19) Which of the following is NOT a service of depository institutions?
- A) minimizing the cost of obtaining funds
 - B) accepting reserve account deposits
 - C) pooling risk
 - D) creating liquidity

Answer: B

Topic: Economic Functions of Depository institutions

Skill: Conceptual

- 20) Depository institutions do all of the following EXCEPT
- A) set required reserve ratio
 - B) create liquidity
 - C) pool risks
 - D) minimize the cost of obtaining funds

Answer: A

Topic: Economic Functions of Depository institutions

Skill: Conceptual*

- 21) Liquidity can
- A) not be created.
 - B) be created by borrowing short and lending long.
 - C) only be created by the government.
 - D) be created by borrowing long and lending short.

Answer: B

Topic: The Economic Functions of Depository institutions

Skill: Recognition*

- 22) The practice of borrowing short and lending long
- A) pools risk.
 - B) minimizes the cost of monitoring borrowers.
 - C) creates liquidity.
 - D) All of the above answers are correct.

Answer: C

Topic: *The Economic Functions of Depository institutions*

Skill: *Recognition*

- 23) Which of the following is NOT an economic benefit of depository institutions?
- A) They borrow long and lend short
 - B) They create liquidity
 - C) They pool risk
 - D) They reduce the cost of monitoring borrowers

Answer: A

Topic: *The Economic Functions of Depository institutions*

Skill: *Recognition*

- 24) Liquidity is
- A) the property of an asset being instantly convertible into a means of payment with little loss in value.
 - B) the degree of movement in an asset's interest rate.
 - C) the same thing as a checking deposit.
 - D) the net flow of gold into the U.S. Treasury.

Answer: A

Topic: *The Economic Functions of Depository institutions*

Skill: *Recognition*

- 25) Depository institution create liquidity when they
- A) buy assets that are liquid.
 - B) borrow short and lend long.
 - C) have liabilities that are illiquid.
 - D) borrow long and lend short.

Answer: B

Topic: *Economic Functions of Depository institutions*

Skill: *Conceptual*

- 26) Which of the following allow banks to minimize the cost to a business of borrowing?
- I. Borrowing long and lending short.
 - II. Raising funds from a large number of depositors.
 - III. Creating money by lending all their reserves.
- A) I only
 - B) II only
 - C) I and III
 - D) II and III

Answer: B

Topic: *Economic Functions of Depository institutions*

Skill: *Conceptual*

- 27) When banks use specialized resources to monitor borrowers, they are
- A) pooling risk.
 - B) lowering the cost of creating liquidity.
 - C) minimizing the cost of assessing borrowers' creditworthiness.
 - D) lending to only high-risk borrowers.

Answer: C

Topic: Economic Functions of Depository institutions

Skill: Conceptual

- 28) The risk of making a loan is
- A) earning profits that are too high and cause higher taxes.
 - B) the risk that lender does not pay.
 - C) the risk that the borrower does not pay.
 - D) called "default risk" when taxes are not paid.

Answer: C

Topic: Economic Functions of Depository institutions

Skill: Recognition*

- 29) Pooling of risk occurs when depository institutions
- A) make assets more liquid.
 - B) specialize in loaning only to good borrowers.
 - C) bring lenders together.
 - D) lend to a variety of different borrowers.

Answer: D

Topic: Economic Functions of Depository institutions

Skill: Recognition

- 30) When a depository institution pools risk, it
- A) buys short and lends long.
 - B) borrows reserves from the Federal Reserve.
 - C) spreads loan losses across many depositors so that no one depositor faces a high degree of risk.
 - D) makes loans to just one firm.

Answer: C

Topic: Economic Functions of Depository institutions

Skill: Recognition

- 31) By borrowing money from many depositors and lending money to a variety of borrowers, depository institutions
- A) spread risk efficiently.
 - B) can expose themselves to a great deal of risk.
 - C) decrease the quantity of money.
 - D) move money from M1 to M2.

Answer: A

Topic: Economic Functions of Depository institutions

Skill: Conceptual

- 32) Financial innovation is
- A) the process of turning assets into a more liquid form.
 - B) the development of new financial products and services.
 - C) responsible for credit cards being included as part of money.
 - D) causing a decrease in bank profits.

Answer: B

Topic: *Financial Innovation*

Skill: *Recognition*

- 33) The development of new financial products has been spurred by all of the following EXCEPT
- A) high inflation and high interest rates.
 - B) new technology in long-distance communication.
 - C) attempts to circumvent bank regulations such as Regulation Q.
 - D) decreasing competition from nonbank depository institutions.

Answer: D

Topic: *Financial Innovation*

Skill: *Conceptual*

- 34) As a result of financial innovation, which of the following is TRUE?
- I. Variable interest rate mortgages were created.
 - II. The use of credit cards increased.
 - III. Many money market mutual funds collapsed.
- A) I and II
 - B) II and III
 - C) I and III
 - D) I, II, and III

Answer: A

Topic: *Financial Innovation*

Skill: *Conceptual*

- 35) Depository institutions do all the following EXCEPT
- A) minimize the cost of obtaining funds.
 - B) create liquidity.
 - C) pool risks.
 - D) create required reserve ratios.

Answer: D

Topic: *Study Guide Question, Depository institutions*

Skill: *Recognition*

- 36) A savings bank is a depository institution that _____.
- A) sells shares which it uses to purchase shares in U.S. Treasury bills
 - B) makes mostly mortgage loans
 - C) is owned by a social or economic group
 - D) makes mostly consumer loans

Answer: B

Topic: *Savings Banks*

Skill: *Recognition*

37) A depository institution is a firm that takes deposits from _____ and makes loans to _____.

- A) households and firms; other households and firms
- B) firms; households
- C) households; firms
- D) firms; other firms

Answer: A

Topic: *Depository Institutions*

Skill: *Recognition*

38) Reserves are _____.

- A) gold in a bank's vault plus its gold at Federal Reserve banks
- B) cash in a bank's vault plus its deposits at Federal Reserve banks
- C) cash in a bank's vault plus its gold at Federal Reserve banks
- D) cash in a bank's vault plus the cash carried by its customers

Answer: B

Topic: *Reserves*

Skill: *Recognition*

39) Depository institutions undertake all the following activities except they do not _____.

- A) print money
- B) minimize the cost of monitoring borrowers
- C) pool risk
- D) create liquidity

Answer: A

Topic: *Economic Functions of Depository institutions*

Skill: *Recognition*

40) Sarah buys shares from a financial institution that uses her funds together with other funds to purchase U.S. treasury bills. Sarah has deposited her money into a _____.

- A) savings bank
- B) credit union
- C) money market mutual fund
- D) savings and loan association

Answer: C

Topic: *Money Market Mutual Funds*

Skill: *Recognition*

41) The main influences on financial innovation include all of the following except _____.

- A) economic environment
- B) a decrease in the inflation rate
- C) technology
- D) regulation

Answer: B

Topic: *Financial Innovation*

Skill: *Recognition*

9.3 The Federal Reserve System

- 1) The "Fed" is the abbreviation for
- A) Congress, the President, and the Supreme Court.
 - B) the U.S. Treasury.
 - C) the Federal Council on Economic Activity.
 - D) the Federal Reserve System.

Answer: D

Topic: *The Federal Reserve System*

Skill: *Recognition*

- 2) The U.S. central bank is formally called the
- A) Federal Central Bank.
 - B) Federal Reserve System.
 - C) Open Market Committee.
 - D) U.S. Treasury.

Answer: B

Topic: *The Federal Reserve System*

Skill: *Recognition*

- 3) Which of the following is the central bank of the United States?
- A) Comptroller of the Currency
 - B) Treasury Department
 - C) Federal Reserve System
 - D) Office of the Budget

Answer: C

Topic: *The Federal Reserve System*

Skill: *Recognition*

- 4) The Federal Reserve System
- A) regulates the nation's financial institutions.
 - B) conducts the nation's monetary policy.
 - C) Both answers A and B are correct.
 - D) Neither answer A nor B is correct.

Answer: C

Topic: *The Federal Reserve System*

Skill: *Recognition*

- 5) The Bank of Japan is Japan's central bank. As part of its duties, the Bank of Japan would
- A) provide banking services to Japan's citizens and firms.
 - B) provide banking services to foreigners.
 - C) control the quantity of money in circulation in Japan.
 - D) change tax rates.

Answer: C

Topic: *The Federal Reserve System*

Skill: *Recognition*

- 6) As a "central bank," which of the following is true regarding the Fed?
- I. The Fed is a public authority that regulates the nation's banks.
 - II. The Fed is not allowed to provide services to commercial banks like Citibank.
 - III. The Fed is required to provide banking services to private citizens.
- A) I
 - B) II
 - C) I and II
 - D) I and III

Answer: A

Topic: *The Federal Reserve System*

Skill: *Conceptual*

- 7) The Federal Reserve System
- A) has officers that are elected, like members of Congress.
 - B) controls the amount of currency in circulation.
 - C) is headquartered in San Francisco.
 - D) was recently declared unconstitutional by the Supreme Court.

Answer: B

Topic: *The Federal Reserve System*

Skill: *Recognition*

- 8) Control of the nation's quantity of money is handled by
- A) Congress.
 - B) the Federal Reserve System.
 - C) the President of the United States.
 - D) Congress, the Federal Reserve System, and all member commercial banks.

Answer: B

Topic: *Monetary Policy*

Skill: *Recognition*

- 9) Monetary policy is conducted
- A) only by the Federal Reserve.
 - B) by the Federal Reserve and the President of the United States.
 - C) by the Federal Reserve, the President of the United States, and Congress.
 - D) by the Federal Reserve with veto power residing with the President of the United States.

Answer: A

Topic: *Monetary Policy*

Skill: *Recognition*

- 10) Controlling the quantity of money and interest rates to influence aggregate economic activity is called
- A) foreign policy.
 - B) monetary policy.
 - C) fiscal policy.
 - D) bank antitrust policy.

Answer: B

Topic: *Monetary Policy*

Skill: *Conceptual*

11) The nation is divided into _____ Federal Reserve districts, each having a Federal Reserve Bank.

- A) 10
- B) 52
- C) 12
- D) 7

Answer: C

Topic: The Structure of the Federal Reserve System

Skill: Recognition

12) Which of the following institutions is NOT part of the structure of the Federal Reserve system?

- A) The Federal Open Market Committee
- B) The Federal Reserve Banks
- C) The Board of Governors
- D) The Federal Government

Answer: D

Topic: The Structure of the Federal Reserve System

Skill: Recognition

13) Members of the Federal Reserve System's Board of Governors

- A) are elected for life.
- B) hold 14-year staggered terms.
- C) are a special subcommittee of the Senate.
- D) are elected at large by district banks.

Answer: B

Topic: The Structure of the Federal Reserve System

Skill: Recognition

14) This group consists of seven members appointed by the President of the United States for 14-year terms:

- A) the presidents of the Federal Reserve Banks.
- B) the members of the Federal Open Market Committee.
- C) the members of the Board of Governors.
- D) None of the above answers are correct.

Answer: C

Topic: The Federal Reserve System

Skill: Recognition

15) The Board of Governors of the Federal Reserve System does NOT

- A) consist of seven members with fourteen-year terms.
- B) include the presidents of the twelve Federal Reserve Banks.
- C) utilize a system of rotations so that a position comes open every two years.
- D) consist of members whose appointments have been approved by the Senate.

Answer: B

Topic: The Federal Reserve System

Skill: Recognition

- 16) The Federal Open Market Committee
- A) consists of the Fed chairman and the 12 regional bank presidents.
 - B) is the main policy-making organ of the Federal Reserve.
 - C) is headed by the president of the New York Federal Reserve Bank.
 - D) meets every week to review the state of the economy.

Answer: B

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 17) Which part of the Federal Reserve System meets every 6 weeks to determine the nation's monetary policy?
- A) Federal Open Market Committee
 - B) Board of Governors
 - C) the Federal Reserve Banks
 - D) depository institutions such as commercial banks

Answer: A

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition**

- 18) The monetary policy-making body of the Federal Reserve is the
- A) the Federal Open Market Committee
 - B) the New York Federal Reserve Bank
 - C) regional Federal Reserve Banks
 - D) Board of Governors

Answer: A

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition**

- 19) Which Federal Reserve Bank president is always on the Federal Open Market Committee?
- A) New York
 - B) Chicago
 - C) St. Louis
 - D) Boston

Answer: A

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 20) The Federal Open Market Committee of the Federal Reserve System is responsible for
- A) maintaining competition among the nation's commercial banks.
 - B) determining monetary policy actions.
 - C) establishing the official price of gold.
 - D) defining the foreign exchange value of the dollar.

Answer: B

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 21) The Federal Open Market Committee
- A) meets weekly to set Fed policy.
 - B) has 7 voting members.
 - C) always includes the president of the Federal Reserve Bank of New York as a member.
 - D) does not include any members of the Board of Governors.

Answer: C

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 22) The main policy-making organ of the Federal Reserve System is the
- A) Board of Governors.
 - B) Federal Reserve bank presidents.
 - C) Federal Open Market Committee.
 - D) Joint Congressional Committee on Monetary Policy.

Answer: C

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 23) The main policy-making body of the Federal Reserve System is the
- A) Board of Governors.
 - B) Federal Open Market Committee.
 - C) Federal Reserve Banks.
 - D) member commercial banks.

Answer: B

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 24) The main policy designer of the Federal Reserve system is the
- A) 12 district banks.
 - B) President and Congress.
 - C) Federal Open Market Committee.
 - D) Council of Economic Advisors.

Answer: C

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 25) The main policy making group that makes decisions about the nation's monetary policy is the
- A) Federal Reserve Banks.
 - B) Federal Open Market Committee.
 - C) Board of Governors.
 - D) federal government.

Answer: B

Topic: *The Structure of the Federal Reserve System*

Skill: *Recognition*

- 26) The largest influence on the Fed's monetary policy actions is
- A) distributed equally among the district banks.
 - B) held by the Board of Governors.
 - C) held by the chairman of the Board of Governors, who sets the policy agenda.
 - D) held by the New York Federal Reserve Bank because it implements policy.

Answer: C

Topic: *The Fed's Power Center*

Skill: *Conceptual*

- 27) The current chairman of the Federal Reserve System is
- A) Milton Friedman.
 - B) Alan Greenspan.
 - C) John Keynes.
 - D) Ben Bernanke.

Answer: D

Topic: *The Fed's Power Center*

Skill: *Recognition*

- 28) Since 2006, _____ has served as chairman of the Federal Reserve.
- A) Paul Volcker
 - B) Alan Greenspan
 - C) President Bush
 - D) Ben Bernanke

Answer: D

Topic: *The Fed's Power Center*

Skill: *Recognition*

- 29) The chairman of the Federal Reserve's Board of Governors
- A) controls the agenda of the Federal Open Market Committee meetings.
 - B) is the main point of contact between the Fed and the President of the U.S.
 - C) receives frequent background briefings on monetary policy issues from a large staff of economists and technical experts.
 - D) All of the above answers are correct.

Answer: D

Topic: *The Fed's Power Center*

Skill: *Recognition*

- 30) Most of the day-to-day power in monetary policy decisions lies with
- A) the President of the United States
 - B) the Senate Banking Committee
 - C) the chairman of the Board of Governors
 - D) large commercial banks

Answer: C

Topic: *The Fed's Power Center*

Skill: *Recognition*

- 31) Which of the following is a tool that is used by the Fed to control the quantity of money?
- A) open market operations
 - B) excess reserves
 - C) government expenditure multiplier
 - D) real interest rate

Answer: A

Topic: *The Fed's Policy Tools*

Skill: *Conceptual*

- 32) Which of the following is NOT a monetary policy tool of the Federal Reserve?
- A) changes in required reserves
 - B) discount rate changes
 - C) deposit insurance
 - D) open market operations

Answer: C

Topic: *The Fed's Policy Tools*

Skill: *Recognition*

- 33) Which of the following is NOT one of the Fed's monetary policy tools?
- A) the discount rate
 - B) the required reserve ratio
 - C) the income tax rate
 - D) buying and selling U.S. government securities

Answer: C

Topic: *The Fed's Policy Tools*

Skill: *Recognition*

- 34) Which of the following tools is NOT a policy tool of the Fed?
- A) the discount rate
 - B) the tax rate on interest income
 - C) the reserve ratio
 - D) open market operations

Answer: B

Topic: *The Fed's Policy Tools*

Skill: *Recognition*

- 35) Which of the following is NOT a monetary policy tool?
- A) discount rate
 - B) open market operations
 - C) required reserve ratio
 - D) federal funds rate

Answer: D

Topic: *The Fed's Policy Tools*

Skill: *Recognition*

- 36) Which of the following is NOT a policy tool of the Federal Reserve System?
- A) open market operations
 - B) the tax rate imposed on interest income
 - C) the interest rate charged by the Fed for loans to member banks
 - D) the amount of required reserves held by member banks

Answer: B

Topic: *The Fed's Policy Tools*

Skill: *Recognition*

- 37) The minimum percentage of deposits that a depository institution must hold and cannot use for lending is known as the
- A) minimum rate.
 - B) required reserve ratio.
 - C) money multiplier.
 - D) discount rate.

Answer: B

Topic: *The Fed's Policy Tools, Required Reserve Ratio*

Skill: *Recognition*

- 38) Reserve requirements are
- A) minimum percentages of deposits that banks must hold as reserves.
 - B) the minimum amount of an owner's financial resources that must be placed in a depository institution.
 - C) rules covering the types of deposits that banks may offer.
 - D) rules covering the types of assets that banks may purchase.

Answer: A

Topic: *The Fed's Policy Tools, Required Reserve Ratio*

Skill: *Recognition*

- 39) The required reserve ratio ranges from
- A) 0 to 3 percent.
 - B) 0 to 7 percent.
 - C) 3 to 30 percent.
 - D) 0 to 10 percent.

Answer: D

Topic: *The Fed's Policy Tools, Required Reserve Ratio*

Skill: *Recognition*

- 40) The discount rate is the interest rate
- A) that banks charge their best customers.
 - B) that the Fed charges on loans of reserves to depository institutions
 - C) on interbank lending.
 - D) that bank insurers pay on insured deposits.

Answer: B

Topic: *The Fed's Policy Tools, Discount Rate*

Skill: *Recognition*

- 41) When the Federal Reserve lends reserves to depository institutions, it charges them interest. That interest rate is called the
- A) federal funds rate.
 - B) loan rate.
 - C) prime rate.
 - D) discount rate.

Answer: D

Topic: *The Fed's Policy Tools, Discount Rate*

Skill: *Recognition**

- 42) The discount rate is the interest rate that
- A) the Federal Reserve charges when it loans reserves to depository institutions.
 - B) is the lowest rate that banks will charge when lending to their best customers.
 - C) the Federal Reserve charges when it loans to the U.S. Government.
 - D) banks charge when they lend to each other.

Answer: A

Topic: *The Fed's Policy Tools, Discount Rate*

Skill: *Recognition*

- 43) The discount rate is the interest rate
- A) paid on time deposits.
 - B) paid on funds banks borrow from other banks.
 - C) paid on funds that depository institutions borrow from the Federal Reserve.
 - D) that banks charge their "best" customers.

Answer: C

Topic: *The Fed's Policy Tools, Discount Rate*

Skill: *Recognition*

- 44) The _____ rate is the interest rate at which the Fed lends _____ to depository institutions.
- A) discount rate; reserves
 - B) discount rate; gold
 - C) federal funds rate; deposits
 - D) federal funds rate; reserves

Answer: A

Topic: *The Fed's Policy Tools, Discount Rate*

Skill: *Conceptual*

- 45) An open market operation involves
- A) the Federal Reserve's purchase or sale of government securities.
 - B) the issuance of new corporate stock.
 - C) changing federal income tax rates.
 - D) raising the debt limit of the United States.

Answer: A

Topic: *The Fed's Policy Tools, Open Market Operations*

Skill: *Conceptual*

46) The largest asset on the Fed's balance sheet is

- A) U.S. government securities.
- B) Federal Reserve notes.
- C) loans to banks.
- D) gold and foreign exchange.

Answer: A

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

47) Which of the following statements about the Fed's balance sheet is correct?

- A) Federal Reserve notes are an asset to the Federal Reserve.
- B) Gold is a liability to the Federal Reserve.
- C) Foreign exchange is an asset to the Federal Reserve.
- D) Both answers A and C are correct.

Answer: C

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

48) Which of the following is NOT an asset of the Federal Reserve?

- A) gold
- B) government securities
- C) loans to banks
- D) Federal Reserve notes

Answer: D

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

49) Which of the following is NOT an asset of the Federal Reserve System?

- A) gold and foreign exchange
- B) bank's deposits at Federal Reserve Banks
- C) U.S. government securities
- D) loans to banks

Answer: B

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

50) The Fed's liabilities include

- A) only banks' deposits.
- B) only Federal Reserve notes in circulation.
- C) both banks' deposits and Federal Reserve notes in circulation.
- D) loans to banks.

Answer: C

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

- 51) Which of the following is a liability in the balance sheet of the Federal Reserve System?
- A) Federal Reserve notes
 - B) U.S. government securities
 - C) Loans to banks
 - D) gold and foreign exchange

Answer: A

Topic: *The Fed's Balance Sheet*

Skill: *Recognition**

- 52) The largest liability on the Federal Reserve's balance sheet is
- A) gold and foreign exchange.
 - B) U.S. government securities.
 - C) loans to banks.
 - D) Federal Reserve notes.

Answer: D

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

- 53) When bank notes were first invented, they were
- A) convertible to gold on demand.
 - B) not convertible to any commodity.
 - C) an asset to the issuer.
 - D) a liability to the bearer.

Answer: A

Topic: *The Fed's Balance Sheet*

Skill: *Conceptual*

- 54) The monetary base is the sum of
- A) U.S. Treasury notes and other government securities.
 - B) Federal Reserve notes, coins, and banks' deposits at the Fed.
 - C) foreign and domestic deposits at the Fed.
 - D) gold holdings and U.S. Treasury deposits at the Fed.

Answer: B

Topic: *Monetary Base*

Skill: *Recognition*

- 55) The monetary base is the sum of
- A) Federal Reserve notes, coins, and banks' deposits at the Fed
 - B) currency, travelers' checks, and checking deposits
 - C) currency
 - D) M1 and M2

Answer: A

Topic: *Monetary Base*

Skill: *Recognition**

- 56) Which of the following is NOT a part of the monetary base?
- A) Chemical Bank's deposits of reserves at the Fed
 - B) First Bank's required reserves held at the Federal Reserve
 - C) Federal Reserve notes in circulation
 - D) U.S. government securities owned by the Fed

Answer: D

Topic: Monetary Base

Skill: Recognition

- 57) The monetary base does NOT include
- A) Federal Reserve notes.
 - B) bank deposits at the Fed.
 - C) checking accounts at commercial banks.
 - D) cash in vaults at commercial banks.

Answer: C

Topic: Monetary Base

Skill: Recognition

- 58) Which of the following is NOT part of the monetary base?
- A) Federal Reserve notes
 - B) bank deposits at the Fed
 - C) the public's checking deposits at commercial banks
 - D) coins

Answer: C

Topic: Monetary Base

Skill: Recognition

- 59) In the United States, the central bank is the _____.
- A) Bank of America
 - B) Federal Reserve System
 - C) Federal Reserve Bank of New York
 - D) Federal Reserve Bank of Washington D.C.

Answer: B

Topic: The Federal Reserve System

Skill: Recognition

- 60) All the following statements about a central bank are true except it _____.
- A) is a public authority
 - B) regulates a nation's depository institutions
 - C) accepts personal deposits
 - D) controls the quantity of money

Answer: C

Topic: The Federal Reserve System

Skill: Recognition

- 61) One role of monetary policy is to control _____ by changing the _____.
- A) inflation; price level
 - B) the price level; government spending
 - C) unemployment; level of taxation
 - D) inflation; quantity of money in circulation

Answer: D

Topic: Monetary Policy

Skill: Conceptual

- 62) The sum of Federal Reserve notes, coins, and banks' deposits at the Fed is the _____.
- A) reserves of the Fed
 - B) assets of the Fed
 - C) monetary base
 - D) liabilities of the Fed

Answer: C

Topic: Monetary Base

Skill: Conceptual

- 63) The main policy-making organization of the Federal Reserve System is the _____.
- A) U.S. Mint
 - B) U.S. Treasury
 - C) monetary commission
 - D) Federal Open Market Committee

Answer: D

Topic: The Structure of the Federal Reserve System

Skill: Recognition

- 64) The interest rate that the Fed charges when it lends reserves to depository institutions is the _____ rate.
- A) discount
 - B) short-term
 - C) reserve
 - D) federal funds

Answer: A

Topic: The Fed's Policy Tools, Discount Rate

Skill: Recognition

- 65) The Chairman of the Fed is appointed by _____.
- A) the Board of Governors of the Federal Reserve System
 - B) the President of the United States
 - C) Congress
 - D) the U.S. Senate

Answer: B

Topic: The Fed's Power Center

Skill: Recognition

66) An open market operation occurs when the _____ buys or sells government securities _____.

- A) Federal Reserve System; from or to the federal government
- B) Federal Reserve System; in the open market
- C) a commercial bank; from or to the federal government
- D) a commercial bank; from or to the public

Answer: B

Topic: *The Fed's Policy Tools, Open Market Operations*

Skill: *Conceptual*

67) Assets of the Fed include _____.

- A) banks' deposits with the Fed
- B) Federal Reserve notes in circulation
- C) Federal Reserve notes
- D) gold and foreign exchange

Answer: D

Topic: *The Fed's Balance Sheet*

Skill: *Recognition*

9.4 How Banks Create Money

1) Bank managers lend the excess reserves created when new deposits come in because they want to

- A) create new money in the economy.
- B) earn a profit.
- C) deplete required reserves.
- D) deplete desired reserves.

Answer: B

Topic: *Banks' Reserves*

Skill: *Conceptual*

2) The reserve ratio is a bank's reserves as a fraction of its

- A) total assets.
- B) total loans.
- C) currency.
- D) total deposits.

Answer: D

Topic: *Reserves: Actual and Required*

Skill: *Recognition*

3) Excess reserves are

- A) desired reserves minus actual reserves.
- B) required reserves minus actual reserves.
- C) liquidity funds minus actual reserves.
- D) actual reserves minus desired reserves.

Answer: D

Topic: *Reserves: Actual and Required*

Skill: *Recognition*

4) The majority of money is created when

- A) banks make loans
- B) new coins are minted
- C) new bills are printed
- D) the Fed sells bonds

Answer: A

Topic: Reserves and Loans

Skill: Conceptual*

5) A bank creates money by

- A) lending its excess reserves
- B) purchasing currency from the Federal Reserve
- C) buying bonds from the Federal Reserve
- D) printing more checks

Answer: A

Topic: Reserves and Loans

Skill: Conceptual*

6) Banks make additional loans when desired reserves

- A) exceed actual reserves, a situation of negative excess reserves.
- B) are less than actual reserves, a situation of negative excess reserves.
- C) exceed actual reserves, a situation of positive excess reserves.
- D) are less than actual reserves, a situation of positive excess reserves.

Answer: D

Topic: Reserves and Loans

Skill: Conceptual

7) Whenever actual reserves exceed desired reserves, the bank

- A) can lend out additional funds.
- B) needs to call in loans.
- C) will go out of business.
- D) must increase the amount of its required reserves by obtaining more cash.

Answer: A

Topic: Reserves and Loans

Skill: Conceptual

8) The banking system in the United States creates money through the combination of excess reserves and

- A) banks loaning excess reserves.
- B) commodity money.
- C) banks' assets being more than their liabilities.
- D) stringent Federal Reserve regulations.

Answer: A

Topic: Reserves and Loans

Skill: Conceptual

- 9) You deposit \$4,000 in currency in your checking account. The bank holds 20 percent of all deposits as desired reserves. As a direct result of your deposit, your bank will create
- A) \$200 of new money.
 - B) \$800 of new money.
 - C) \$1,600 of new money.
 - D) \$3,200 of new money.

Answer: D

Topic: Reserves and Loans

Skill: Analytical

- 10) You withdraw \$2,000 from your account. Your bank has a desired reserve ratio of 20 percent. This transaction, by itself, will directly reduce
- A) the quantity of money by \$1,600.
 - B) deposits by \$1,600.
 - C) the quantity of money by \$2,000.
 - D) deposits by \$2,000.

Answer: D

Topic: Reserves and Loans

Skill: Analytical

Assets	Liabilities
Reserves	Deposits
\$100	\$400
Loans	Net Worth
\$600	\$300
Total	Total
\$700	\$700

- 11) The above table gives the initial balance sheet for Mini Bank. Mini Bank's actual reserve ratio equals _____.
- A) 25 percent
 - B) 14.3 percent
 - C) 33.3 percent
 - D) 20 percent

Answer: A

Topic: Reserves: Actual and Required

Skill: Analytical*

- 12) The above table gives the initial balance sheet for Mini Bank. If the bank's desired reserve ratio is 10 percent, how much does this bank have in excess reserves?
- A) \$60
 - B) \$100
 - C) \$40
 - D) \$10

Answer: A

Topic: Reserves: Actual and Required

Skill: Analytical*

- 13) The above table gives the initial balance sheet for Mini Bank. Mini Bank's balance sheet is such that it will make
- A) more loans.
 - B) fewer loans.
 - C) no change in its lending.
 - D) you cannot predict what the bank will do from this balance sheet.

Answer: A

Topic: Reserves: Actual and Required

Skill: Analytical*

Assets	Liabilities
Reserves \$30	Deposits
Loans \$970	\$1,000
Total \$1,000	Total \$1,000

- 14) The above table gives the initial balance sheet for Mega Bank. Mega Bank's desired reserves equal its required reserves. Based on the initial balance sheet, what is the required reserve ratio for Mega Bank?
- A) 3 percent
 - B) 10 percent
 - C) 30 percent
 - D) 1.4 percent

Answer: A

Topic: Reserves: Actual and Required

Skill: Analytical

- 15) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits \$50 of currency into his checking account. The desired reserve ratio is 3 percent. After Barney's deposit, but before any other actions occur, MegaBank will have excess reserves of
- A) \$15.00.
 - B) \$33.00.
 - C) \$48.50.
 - D) \$50.00.

Answer: C

Topic: Reserves: Actual and Required

Skill: Analytical

- 16) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits \$50 of currency into his checking account. The desired reserve ratio is 3 percent. After Barney's deposit, but before any other actions occur, what volume of loans will be made by MegaBank if the bank wants more profit and holds no excess reserves?

A) \$15.00
B) \$33.00
C) \$48.50
D) \$50.00

Answer: C

Topic: Reserves and Loans

Skill: Analytical

- 17) When part of the quantity of money is held in currency, then

A) a currency drain occurs.
B) there is a higher level of excess reserves.
C) the money multiplier will increase in value.
D) the Fed will find it beneficial to increase the discount rate.

Answer: A

Topic: Currency Drain

Skill: Recognition

- 18) Currency outside of banks increases from \$100 million to \$200 million. This change is considered

A) a currency drain.
B) a decrease in the monetary base.
C) expansionary monetary policy.
D) contractionary monetary policy.

Answer: A

Topic: Currency Drain

Skill: Conceptual

- 19) A currency drain

A) leads to an increase in excess reserves.
B) decreases the size of the money multiplier.
C) results in an increase in deposits.
D) results in an increase in required reserves.

Answer: B

Topic: Currency Drain

Skill: Conceptual

- 20) The larger the public's currency drain from the banking system, the

A) smaller is the monetary base.
B) smaller is the money multiplier.
C) larger is the monetary base.
D) larger is the money multiplier.

Answer: B

Topic: Currency Drain

Skill: Conceptual

- 21) Which of the following best describes the chain of events in the money creation process?
- A) The monetary base increases. Banks acquire excess reserves which they loan out, increasing deposits and also the quantity of money. The new deposits then create additional excess reserves.
 - B) Currency is drained from the quantity of money into the banking system, where it is lent out. The loans are spent, increasing the currency drain and also the quantity of money.
 - C) Desired reserves increase, encouraging banks to seek new deposits. When the new depositors come in, desired reserves decrease and the quantity of money increases.
 - D) Low interest rates discourage people from holding currency. When they deposit the currency, interest rates rise, increasing the quantity of money.

Answer: A

Topic: *The Multiplier Effect of an Open Market Operation*

Skill: *Conceptual**

- 22) The monetary expansion process from an open market operation continues until
- A) required reserves are eliminated.
 - B) the Federal Reserve takes actions to stop the process.
 - C) the discount rate is lower than market interest rates.
 - D) excess bank reserves are eliminated.

Answer: D

Topic: *The Multiplier Effect of an Open Market Operation*

Skill: *Recognition*

- 23) The money multiplier determines how much
- A) real GDP will be expanded given an increase in autonomous investment.
 - B) the monetary base will be expanded given a change in the quantity of money.
 - C) the quantity of money will be expanded given a change in the monetary base.
 - D) money demand will expand given a change in the quantity of money.

Answer: C

Topic: *The Money Multiplier*

Skill: *Recognition*

- 24) The money multiplier is the ratio of the change in the
- A) quantity of money to the change in the monetary base
 - B) currency drain to the change in the quantity of money.
 - C) monetary base to the change in the quantity of money
 - D) desired reserve ratio to the change in the monetary base

Answer: A

Topic: *The Money Multiplier*

Skill: *Recognition**

- 25) The money multiplier is
- A) the amount by which a change in the quantity of money is multiplied to determine the change in the monetary base.
 - B) the amount by which a change in the monetary base is multiplied to determine the change in the quantity of money.
 - C) equal to bank reserves divided by the change in the monetary base.
 - D) equal to bank reserves divided by the change the quantity of money.

Answer: B

Topic: *The Money Multiplier*

Skill: *Recognition*

- 26) When the monetary base increases by \$2 billion, the quantity of money increases by \$10 billion. Thus, the money multiplier equals
- A) 0.2
 - B) 5
 - C) 20.0
 - D) none of the above

Answer: B

Topic: *The Money Multiplier*

Skill: *Analytical*

- 27) _____ in the desired reserve ratio will _____ the money multiplier.
- A) An increase; have no effect on
 - B) An increase; decrease
 - C) A decrease; decrease
 - D) A decrease; will have no effect on

Answer: B

Topic: *The Money Multiplier*

Skill: *Conceptual*

- 28) When the monetary base increases by \$4 billion, the quantity of money increases by \$10 billion. Thus, the money multiplier equals
- A) 0.4
 - B) 2.5
 - C) 40.0
 - D) none of the above

Answer: B

Topic: *The Money Multiplier*

Skill: *Analytical*

- 29) Suppose that the money multiplier is 3. If the monetary base decreases by \$2 million, the quantity of money will
- A) increase by \$6 million.
 - B) increase by \$666,667.
 - C) decrease by \$6 million.
 - D) decrease by \$666,667.

Answer: C

Topic: *Using the Money Multiplier*

Skill: *Analytical*

- 30) Suppose that the money multiplier is 6. If the monetary base increases by \$1 million, the quantity of money will
- A) increase by \$6 million.
 - B) increase by \$166,667.
 - C) decrease by \$6 million.
 - D) decrease by \$166,667.

Answer: A

Topic: Using the Money Multiplier

Skill: Analytical

- 31) Suppose that the money multiplier is 3. If the monetary base increases by \$1 million, the quantity of money will
- A) increase by \$3 million.
 - B) increase by \$300,000.
 - C) decrease by \$3 million.
 - D) decrease by \$300,000.

Answer: A

Topic: Using the Money Multiplier

Skill: Analytical

- 32) Suppose that the money multiplier is 4. If the monetary base decreases by \$2 million, the quantity of money will
- A) increase by \$8 million.
 - B) increase by \$500,000.
 - C) decrease by \$8 million.
 - D) decrease by \$500,000.

Answer: C

Topic: Using the Money Multiplier

Skill: Analytical

- 33) The banking system has just experienced an increase in deposits of \$50,000. The currency drain ratio is 20 percent and the desired reserve ratio is 10 percent. What does the money multiplier equal?
- A) 4.00
 - B) 3.33
 - C) 0.25
 - D) 10.00

Answer: A

Topic: The Money Multiplier

Skill: Analytical*

Assets	Liabilities
Reserves	
\$400	Deposits
Loans	\$1,200
\$800	
Total	Total
\$1,200	\$1,200

34) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the desired reserve ratio on deposits is 10 percent, FBN Bank has desired reserves of

- A) \$700 million.
- B) \$120 million.
- C) \$100 million.
- D) \$0.

Answer: B

Topic: Study Guide Question, Reserves: Actual and Required

Skill: Analytical

35) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the desired reserve ratio equals 10 percent, FBN Bank has excess reserves of

- A) \$280 million.
- B) \$200 million.
- C) \$100 million.
- D) \$0.

Answer: A

Topic: Study Guide Question, Reserves: Actual and Required

Skill: Analytical

36) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the desired reserve ratio on deposits is 10 percent, FBN Bank can loan an additional

- A) \$280 million.
- B) \$200 million.
- C) \$100 million.
- D) \$0.

Answer: A

Topic: Study Guide Question, Reserves and Loans

Skill: Analytical

37) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. After FBN Bank loans the maximum amount it can, the loans have been spent, and the proceeds have been deposited in other banks, FBN Bank has excess reserves of

- A) \$300 million.
- B) \$200 million.
- C) \$100 million.
- D) \$0.

Answer: D

Topic: Study Guide Question, Reserves and Loans

Skill: Analytical

- 38) If the money multiplier is 3.5, a \$10 billion increase in the monetary base
- A) increases the quantity of money by \$35 billion.
 - B) increases the quantity of money by \$10 billion.
 - C) increases the quantity of money by \$3.5 billion.
 - D) increases the quantity of money but not by an amount given above.

Answer: A

Topic: Study Guide Question, Using the Money Multiplier

Skill: Conceptual

- 39) If a customer deposits \$10,000 in currency into a checking account, the bank's total reserves _____.

- A) increase
- B) do not change
- C) are greater than 100 percent
- D) decrease

Answer: A

Topic: Reserves: Actual and Required

Skill: Conceptual

- 40) A bank's required reserves are calculated by multiplying _____.

- A) its deposits by the required reserve ratio
- B) the sum of its deposits and cash in its vault by the reserve ratio
- C) cash in its vault by the required reserve ratio
- D) the gold in its vault by the reserve ratio

Answer: A

Topic: Reserves: Actual and Required

Skill: Analytical

- 41) A bank cannot create money unless its _____.

- A) required reserves are greater than actual reserves
- B) excess reserves are zero
- C) desired reserves are greater than actual reserves
- D) excess reserves equal deposits multiplied by the reserve ratio

Answer: C

Topic: Reserves and Loans

Skill: Analytical

Assets	Liabilities
Reserves	
\$500	Deposits
Loans	\$3,000
<u>\$2,500</u>	
Total assets	Total
\$1,000	\$3,000

42) The table above shows the balance sheet for Ralph's Bank. If the desired reserve ratio is 15 percent, Ralph's Bank has desired reserves of _____.

- A) \$3,000
- B) \$2,500
- C) \$500
- D) \$450

Answer: D

Topic: Reserves: Actual and Required

Skill: Analytical

43) The table above shows the balance sheet for Ralph's Bank. If the desired reserve ratio is 15 percent, Ralph's Bank has excess reserves of _____.

- A) \$50
- B) \$500
- C) \$3,000
- D) \$2,500

Answer: A

Topic: Reserves: Actual and Required

Skill: Analytical

44) The table shows the balance sheet for Ralph's Bank. If the desired reserve ratio is 15 percent, the maximum additional amount that Ralph's Bank can loan is equal to _____.

- A) \$50
- B) \$500
- C) \$3,000
- D) \$2,500

Answer: A

Topic: Reserves and Loans

Skill: Analytical

45) When bank deposits increase from \$1 million to \$2 million, banks' required reserves increase from \$100,000 to \$200,000. The required reserve ratio is _____.

- A) 10.0
- B) 0.10
- C) 1.00
- D) 0.25

Answer: B

Topic: Reserves: Actual and Required

Skill: Analytical

- 46) The commercial banks on Sunny Island have checking deposits of \$4 million, reserves of \$600,000, and loans of \$2.4 million. The desired reserve ratio is 10 percent. The banks have _____ of desired reserves and _____ of excess reserves.
- A) \$600,000; \$0
 - B) \$400,000; \$200,000
 - C) \$400,000; \$600,000
 - D) \$600,000; \$200,000

Answer: B

Topic: Reserves: Actual and Required

Skill: Analytical

- 47) An increase in currency held outside the banks is _____.
- A) a currency drain
 - B) income
 - C) a currency surplus
 - D) wealth

Answer: A

Topic: Currency Drain

Skill: Recognition

- 48) When the Fed conducts an open market operation by purchasing securities from a bank, _____.
- A) public holdings of securities increase
 - B) the bank's deposits increase but its reserves do not change
 - C) the bank's deposits increase but its reserves decrease
 - D) the bank's reserves increase

Answer: D

Topic: How an Open Market Operation Works

Skill: Conceptual

- 49) The change in the quantity of money divided by the change in the monetary base is called the _____ multiplier.
- A) monetary base
 - B) money
 - C) deposit
 - D) monetary policy

Answer: B

Topic: The Money Multiplier

Skill: Recognition

- 50) If an increase in the monetary base of \$8 billion increases the quantity of money by \$64 billion, then the money multiplier is equal to _____.
- A) \$64 billion
 - B) 8
 - C) \$8 billion
 - D) 1/8

Answer: B

Topic: The Money Multiplier

Skill: Analytical

51) _____ in the currency drain _____ the money multiplier.

- A) A decrease; does not change
- B) An increase; increases
- C) A decrease; decreases
- D) An increase; decreases

Answer: D

Topic: *The Money Multiplier*

Skill: *Analytical*

52) In Zealand, banks' desired reserve ratio is 20 percent and there is no currency drain. The money multiplier equals _____.

- A) 0.50
- B) 0.20
- C) 20.0
- D) 5.0

Answer: D

Topic: *The Money Multiplier*

Skill: *Analytical*

53) In Zealand, banks' desired reserve ratio is 20 percent and the currency drain also equals 20 percent. The money multiplier equals _____.

- A) 2.18
- B) 3.33
- C) 5.0
- D) 3.0

Answer: D

Topic: *The Money Multiplier*

Skill: *Analytical*

9.5 The Market for Money

1) The quantity of money that people choose to hold depends on which of the following?

- I. The price level.
- II. Financial innovation.
- III. The exchange rate.

- A) I
- B) I and II
- C) I and III
- D) I, II, and III

Answer: B

Topic: *Influences on Money Holding*

Skill: *Recognition*

2) The nominal demand for money is

- A) inversely related to GDP.
- B) measured in constant dollars.
- C) inversely related to the price level.
- D) proportional to the price level.

Answer: D

Topic: *Influences on Money Holding, The Price Level*

Skill: *Conceptual*

- 3) If the price level doubles, the
- A) nominal demand for money increases.
 - B) nominal demand for money decreases.
 - C) real demand for money decreases.
 - D) real demand for money increases.

Answer: A

Topic: *Influences on Money Holding, The Price Level*

Skill: *Conceptual*

- 4) Suppose you hold \$50 to buy groceries weekly and then the price of groceries increases by 5 percent. To be able to buy the same amount of groceries, what must happen to your nominal money holdings?
- A) They must increase by \$5.
 - B) They can decrease by \$5.
 - C) They must increase by \$2.50.
 - D) They must increase, but the amount of the increase is different than the above answers.

Answer: C

Topic: *Influences on Money Holding, The Price Level*

Skill: *Conceptual*

- 5) The real quantity of money is
- A) inversely related to GDP.
 - B) measured in current dollars.
 - C) inversely related to the price level.
 - D) measured in constant dollars.

Answer: D

Topic: *Influences on Money Holding, The Price Level*

Skill: *Recognition*

- 6) When price levels rise, the quantity of nominal money demanded will _____ and the quantity of real money demanded will _____.
- A) increase; stay the same
 - B) increase; increase
 - C) increase; decrease
 - D) decrease; increase

Answer: A

Topic: *Influences on Money Holding, The Price Level*

Skill: *Recognition**

- 7) The opportunity cost of holding money is the
- A) interest rate.
 - B) price of goods and services.
 - C) level of wage and rental income.
 - D) ease with which an asset can become money.

Answer: A

Topic: *Influences on Money Holding, The Interest Rate*

Skill: *Recognition*

- 8) The opportunity cost of holding money balances increases when
- A) the purchasing power of money rises.
 - B) the interest rate rises.
 - C) the price of goods and services falls.
 - D) consumers' incomes increase.

Answer: B

Topic: *Influences on Money Holding, The Interest Rate*

Skill: *Conceptual*

- 9) When the interest rate rises, the
- A) quantity of money demanded decreases.
 - B) demand for money decreases.
 - C) demand for money increases.
 - D) quantity of money demanded increases.

Answer: A

Topic: *Influences on Money Holding, The Interest Rate*

Skill: *Recognition**

- 10) When the interest rate rises, the quantity of money demanded decreases because
- A) people will buy fewer goods and hold less money.
 - B) the price level also rises and people decrease their demand for money.
 - C) people move funds from interest-bearing assets into money.
 - D) people shift funds from money holdings to interest-bearing assets.

Answer: D

Topic: *Influences on Money Holding, The Interest Rate*

Skill: *Conceptual*

- 11) Which of the following is correct? The demand for money
- A) increases as real GDP increases.
 - B) decreases as the price level increases.
 - C) depends on the quantity of money.
 - D) increases when the interest rate increases.

Answer: A

Topic: *Influences on Money Holding, Real GDP*

Skill: *Conceptual*

- 12) When real GDP increases, the demand for money
- A) increases.
 - B) decreases.
 - C) stays the same.
 - D) we cannot make a prediction without additional information.

Answer: A

Topic: *Influences on Money Holding, Real GDP*

Skill: *Recognition**

13) _____ real GDP increases the demand for money and _____ the interest rate decreases the quantity of money demanded.

- A) Increasing; increasing
- B) Increasing; decreasing
- C) Decreasing; increasing
- D) Decreasing; decreasing

Answer: A

Topic: Influences on Money Holding

Skill: Conceptual

14) All of the following are examples of financial innovations that have decreased the demand for money EXCEPT

- A) inflation.
- B) ATM machines.
- C) credit cards.
- D) automatic transfers between deposits.

Answer: A

Topic: Influences on Money Holding, Financial Innovation

Skill: Conceptual

15) The graph of the demand for money curve has

- A) real GDP on the y -axis.
- B) consumption on the y -axis.
- C) the interest rate on the y -axis.
- D) the price level on the y -axis.

Answer: C

Topic: The Demand for Money Curve

Skill: Recognition

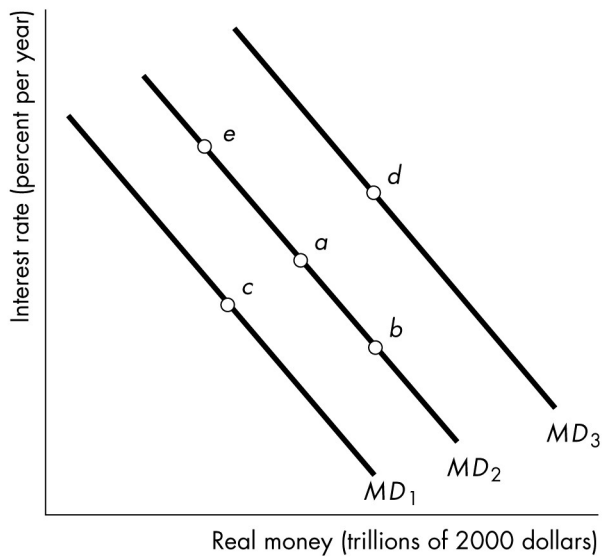
16) The demand for money curve

- A) is horizontal.
- B) has a positive slope.
- C) is vertical.
- D) has a negative slope.

Answer: D

Topic: The Demand for Money Curve

Skill: Recognition



- 17) Use the figure above to answer this question. Suppose the economy is operating at point *a*. A move to _____ could be explained by _____.
- A) point *e*; a decrease in the interest rate
 - B) point *c*; an increase in the interest rate
 - C) point *d*; an increase in real GDP
 - D) point *b*; an increase in real GDP

Answer: C

Topic: Shifts in the Demand for Money Curve

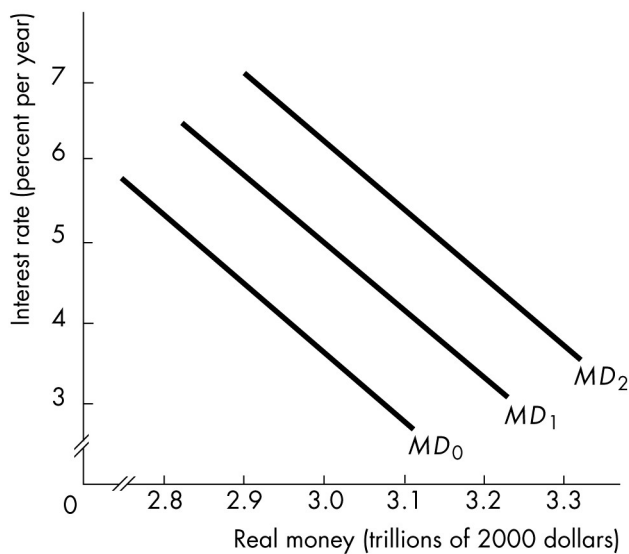
Skill: Analytical

- 18) Use the figure above to answer this question. Suppose the economy is operating at point *a*. A move to _____ could be explained by _____.
- A) point *c*; an increase in the use of credit cards
 - B) point *b*; an increase in real GDP
 - C) point *b*; an increase in interest rates
 - D) point *e*; an increase in U.S. exports

Answer: A

Topic: Shifts in the Demand for Money Curve

Skill: Analytical



- 19) In the above figure, suppose the economy is initially on the demand for money curve MD_1 . What is the effect of a fall in the interest rate?
- A) The demand for money curve would shift rightward to MD_2 .
 - B) The demand for money curve would shift leftward to MD_0 .
 - C) There would be a movement upward along the demand for money curve MD_1 .
 - D) There would be a movement downward along the demand for money curve MD_1 .

Answer: D

Topic: The Demand for Money Curve

Skill: Analytical

- 20) In the above figure, suppose the economy is initially on the demand for money curve MD_1 . What is the effect of a rise in the interest rate?
- A) The demand for money curve would shift rightward to MD_2 .
 - B) The demand for money curve would shift leftward to MD_0 .
 - C) There would be a movement upward along the demand for money curve MD_1 .
 - D) There would be a movement downward along the demand for money curve MD_1 .

Answer: C

Topic: The Demand for Money Curve

Skill: Analytical

- 21) In the above figure, suppose the economy is initially on the demand for money curve MD_1 . What is the effect of an increase in real GDP?
- A) The demand for money curve would shift rightward to MD_2 .
 - B) The demand for money curve would shift leftward to MD_0 .
 - C) There would be a movement upward along the demand for money curve MD_1 .
 - D) There would be a movement downward along the demand for money curve MD_1 .

Answer: A

Topic: Shifts in the Demand for Money Curve

Skill: Analytical

- 22) In the above figure, suppose the economy is initially on the demand for money curve MD_1 . What is the effect of an increase in financial innovation such as the introduction of ATMs?
- A) The demand for money curve would shift rightward to MD_2 .
 - B) The demand for money curve would shift leftward to MD_0 .
 - C) There would be a movement upward along the demand for money curve MD_1 .
 - D) There would be a movement downward along the demand for money curve MD_1 .

Answer: B

Topic: Shifts in the Demand for Money Curve

Skill: Analytical

- 23) In the above figure, suppose the economy is initially on the demand for money curve MD_1 . What is the effect of increased use of credit cards?
- A) The demand for money curve would shift rightward to MD_2 .
 - B) The demand for money curve would shift leftward to MD_0 .
 - C) There would be a movement upward along the demand for money curve MD_1 .
 - D) There would be a movement downward along the demand for money curve MD_1 .

Answer: B

Topic: Shifts in the Demand for Money Curve

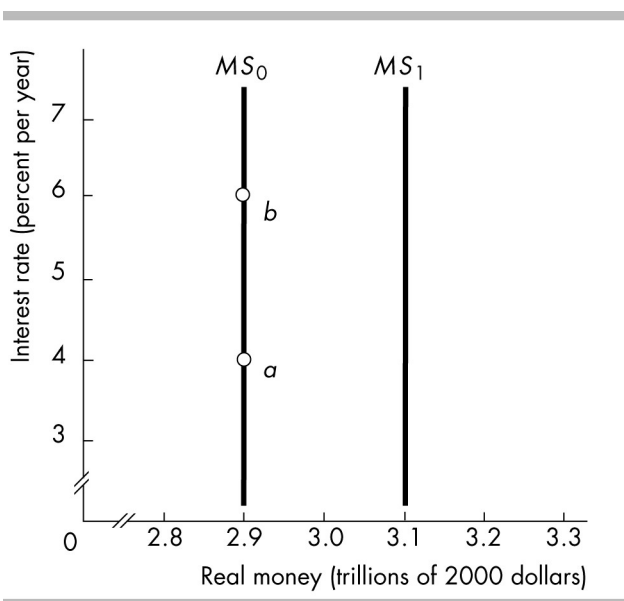
Skill: Analytical

- 24) On a given day the quantity of money is _____ and the supply of money curve is _____.
- A) fixed; horizontal
 - B) fixed; vertical
 - C) variable; horizontal
 - D) variable; vertical

Answer: B

Topic: The Quantity of Money

Skill: Conceptual



- 25) In the figure above, an increase in the monetary base would create a change such as a

- A) movement from point *a* to point *b* along the supply of money curve MS_0 .
- B) movement from point *b* to point *a* along the supply of money curve MS_0 .
- C) shift from the supply of money curve MS_0 to the supply of money curve MS_1 .
- D) shift from the supply of money curve MS_1 to the supply of money curve MS_0 .

Answer: C

Topic: Supply of Money Curve

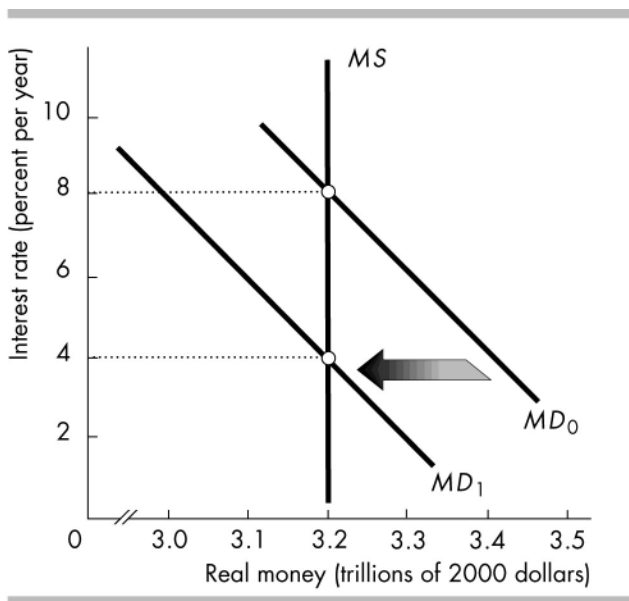
Skill: Analytical

- 26) In the figure above, a decrease in the monetary base would create a change such as a
- A) movement from point *a* to point *b* along the supply of money curve MS_0 .
 - B) movement from point *b* to point *a* along the supply of money curve MS_0 .
 - C) shift from the supply of money curve MS_0 to the supply of money curve MS_1 .
 - D) shift from the supply of money curve MS_1 to the supply of money curve MS_0 .

Answer: D

Topic: Supply of Money Curve

Skill: Analytical



- 27) The figure above illustrates the effect of
- A) an increase in real GDP.
 - B) a decrease in real GDP.
 - C) an increase in the monetary base.
 - D) a decrease in the monetary base.

Answer: B

Topic: Changing the Interest Rate

Skill: Analytical

28) Suppose that the interest rate is greater than the equilibrium interest rate. Which of the following occurs?

- I. There is an excess quantity of money.
- II. The quantity of money automatically increases.
- III. The interest rate falls.

- A) I
- B) I and II
- C) I and III
- D) I, II and III

Answer: C

Topic: Money Market Equilibrium

Skill: Conceptual

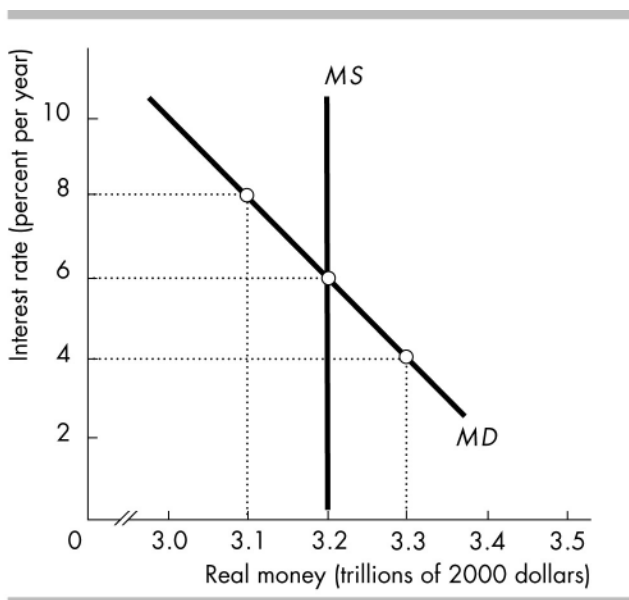
29) In the money market, if the interest rate exceeds the equilibrium interest, there is a surplus of money. How is the surplus eliminated?

- A) People buy bonds to rid themselves of the surplus money, bidding up their price and pushing interest rates down.
- B) Banks will lend out the surplus, lowering interest rates.
- C) The Federal Reserve will destroy currency, reducing the quantity of money.
- D) The high interest rate increases the demand for money, eliminating the surplus.

Answer: A

Topic: Money Market Equilibrium

*Skill: Conceptual**



- 30) In the figure above, if the interest rate is 8 percent, people demand \$0.1 trillion
- A) less money than the quantity supplied and the interest rate will rise.
 - B) less money than the quantity supplied and the interest rate will fall.
 - C) more money than the quantity supplied and the interest rate will fall.
 - D) more money than the quantity supplied and the interest rate will rise.

Answer: B

Topic: Money Market Equilibrium

Skill: Analytical

- 31) In the figure above, if the interest rate is 8 percent, people demand \$0.1 trillion
- A) less money than the quantity supplied and bond prices will rise.
 - B) less money than the quantity supplied and bond prices will fall.
 - C) more money than the quantity supplied and bond prices will fall.
 - D) more money than the quantity supplied and bond prices will rise.

Answer: A

Topic: Money Market Equilibrium

Skill: Analytical

- 32) In the figure above, if the interest rate is 4 percent, there is a \$0.1 trillion excess
- A) quantity of money and the interest rate will rise.
 - B) quantity of money and the interest rate will fall.
 - C) demand for money and the interest rate will fall.
 - D) demand for money and the interest rate will rise.

Answer: D

Topic: Money Market Equilibrium

Skill: Analytical

- 33) In the figure above, if the interest rate is 4 percent, there is a \$0.1 trillion excess
- A) quantity of money and bond prices will rise.
 - B) quantity of money and bond prices will fall.
 - C) demand for money and bond prices will fall.
 - D) demand for money and bond prices will rise.

Answer: C

Topic: Money Market Equilibrium

Skill: Analytical

- 34) In the figure above, if the interest rate is 6 percent,
- A) there is a \$0.1 trillion excess quantity of money and the interest rate will rise.
 - B) there is a \$0.1 trillion excess quantity of money and the interest rate will fall.
 - C) the money market is in equilibrium and the interest rate will remain constant.
 - D) there is a \$0.1 trillion excess demand for money and the interest rate will rise.

Answer: C

Topic: Money Market Equilibrium

Skill: Analytical

- 35) An increase in _____ decreases the quantity of money people want to hold.
- A) the price level
 - B) real GDP
 - C) the interest rate
 - D) the quantity of money

Answer: C

Topic: Study Guide Question, Influences on Money Holding, Interest Rate

Skill: Conceptual

- 36) A decrease in _____ decreases the demand for money.
- A) the discount rate
 - B) real GDP
 - C) the interest rate
 - D) the quantity of money

Answer: B

Topic: Study Guide Question, Influences on Money Holding, Real GDP

Skill: Conceptual

- 37) If real GDP decreases, the demand for money curve will shift
- A) leftward and the interest rate will rise.
 - B) leftward and the interest rate will fall.
 - C) rightward and the interest rate will rise.
 - D) rightward and the interest rate will fall.

Answer: B

Topic: Study Guide Question, Shifts in the Demand for Money Curve

Skill: Conceptual

38) An increase in the interest rate creates a _____ the money demand curve, and an increase in real GDP creates a _____ the money demand curve.

- A) movement down along; leftward shift of
- B) rightward shift of; movement up along
- C) movement up along; rightward shift of
- D) leftward shift of; rightward shift of

Answer: C

Topic: *The Demand for Money Curve*

Skill: *Conceptual*

39) The demand for money curve is the relationship between _____ and _____, other things remaining the same.

- A) the quantity of real money demanded; the quantity of real money supplied
- B) the quantity of money demanded; the real interest rate
- C) the money demanded; the money supplied
- D) the quantity of real money demanded; the interest rate

Answer: D

Topic: *The Demand for Money Curve*

Skill: *Conceptual*

40) In the United States, the demand curve for M1 after 1970 shifted leftward as a result of _____ and shifted rightward as a result of _____.

- A) financial innovation; an increase in real GDP
- B) an increase in the price level; financial innovation
- C) a decrease in real GDP; financial innovation
- D) an increase in interest rates; an increase in real GDP

Answer: A

Topic: *The Demand for Money in the United States*

Skill: *Recognition*

41) In the land of Oz the monetary unit is the emerald. Households and firms in Oz currently hold 100,000 emeralds. The price level is 100. If the price level jumps to 110 and other things remain the same, households and firms will _____.

- A) increase the money they hold by 1,000 emeralds
- B) decrease the money they hold by 10,000 emeralds
- C) decrease the money they hold by 1,000 emeralds
- D) increase the money they hold by 10,000 emeralds

Answer: D

Topic: *The Influences on Money Holding*

Skill: *Analytical*

42) An increase in the opportunity cost of holding money creates a _____ the money demand curve and an increase in real GDP creates a _____ the money demand curve.

- A) leftward shift of; movement down along
- B) rightward shift of; movement down along
- C) movement up along; leftward shift of
- D) movement up along; rightward shift of

Answer: D

Topic: *The Demand for Money Curve*

Skill: *Analytical*

43) When the quantity of money demanded is greater than the quantity of money supplied, people _____ bonds and the interest rate _____.

- A) sell; rises
- B) sell; falls
- C) buy; rises
- D) buy; falls

Answer: A

Topic: Money Market Equilibrium

Skill: Conceptual

44) If people are holding more money than they would willingly hold, they will _____ bonds. The price of a bond will _____ and the interest rate will _____.

- A) sell; rise; fall
- B) sell; fall; rise
- C) purchase; rise; fall
- D) purchase; fall; rise

Answer: C

Topic: Interest Rate Determination

Skill: Conceptual

45) In the short run, which of the following actions raise the interest rate?

- A) a decrease in the demand for money
- B) an increase in bond prices
- C) an increase in the quantity of money
- D) an increase in the demand for money

Answer: D

Topic: Changing the Interest Rate

Skill: Conceptual

46) In the short run, which of the following actions lower the interest rate?

- A) a decrease in the demand for money
- B) an increase in the demand for money
- C) a decrease in the quantity of money
- D) a decrease in bond prices

Answer: A

Topic: Changing the Interest Rate

Skill: Conceptual

9.6 The Quantity Theory of Money

1) The velocity of circulation is

- A) the rate of change of the GDP deflator.
- B) the average number of times a dollar of money is used in a year to buy goods and services in GDP.
- C) the changes in the purchasing power of money over a given time period.
- D) constant.

Answer: B

Topic: Quantity Theory of Money, Velocity of Circulation

Skill: Conceptual

- 2) The velocity of circulation is the
- A) average number of times a dollar of money is used in a year to buy goods and services in GDP.
 - B) speed at which paychecks are cashed and converted to money.
 - C) amount of time it takes for excess reserves to be lent out by financial institutions.
 - D) rate at which new financial serves are developed.

Answer: A

Topic: *Quantity Theory of Money, Velocity of Circulation*

Skill: *Conceptual**

- 3) In the quantity theory of money, the velocity of circulation is assumed to
- A) be not influenced by the quantity of money.
 - B) rise during recessions.
 - C) fall during recessions.
 - D) be unrelated to the equation of exchange.

Answer: A

Topic: *Quantity Theory of Money, Velocity of Circulation*

Skill: *Recognition*

- 4) If real GDP is \$10 trillion, the price level is 120, and the quantity of money is \$4 trillion, what is the velocity of circulation?
- A) 3
 - B) 2.5
 - C) 30
 - D) 25

Answer: A

Topic: *Quantity Theory of Money, Velocity of Circulation*

Skill: *Analytical**

- 5) Which of the following equations represents the equation of exchange?
- A) $PM = VY$
 - B) $MY = PV$
 - C) $MV = PY$
 - D) $M = VP/Y$

Answer: C

Topic: *Equation of Exchange*

Skill: *Recognition*

- 6) Which of the following is the equation of exchange?
- A) $MV = PY$
 - B) $M = VP/Y$
 - C) $MY = PV$
 - D) $V = MY/P$

Answer: A

Topic: *Equation of Exchange*

Skill: *Recognition**

- 7) Which of the following is NOT true of the equation of exchange?
- A) It is a short-run theory.
 - B) It is part of the quantity theory of money.
 - C) It indicates that inflation is strongly correlated with the growth rate of the money supply.
 - D) It uses the concept of the velocity of circulation.

Answer: A

Topic: Equation of Exchange

Skill: Conceptual*

- 8) If velocity is 6 and the quantity of money is \$2 trillion, what is nominal GDP?
- A) \$12 trillion
 - B) \$6 trillion
 - C) \$3 trillion
 - D) \$333 billion

Answer: A

Topic: Equation of Exchange

Skill: Analytical*

- 9) According to the quantity theory of money,
- A) V and M are constant.
 - B) V and Y are not affected by the quantity of money.
 - C) V and P are not affected by the quantity of money.
 - D) V and M are not affected by changes in the price level.

Answer: B

Topic: Quantity Theory of Money

Skill: Analytical

- 10) The quantity theory of money predicts how changes in
- A) the price level affect nominal GDP.
 - B) the price level affect real GDP.
 - C) the quantity of money affect the price level.
 - D) real GDP affect the nominal GDP.

Answer: C

Topic: Predictions of the Quantity Theory of Money

Skill: Recognition

- 11) The quantity theory of money addresses the
- A) long-run effect the quantity of money has on the price level.
 - B) determinants of potential GDP.
 - C) determinants of the equilibrium unemployment rate.
 - D) short-run effect the quantity of money has on the price level.

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual

- 12) An increase in the quantity of money leads to a proportional increase in the price level according to the
- A) equation of exchange.
 - B) short-run velocity model.
 - C) quantity theory of money.
 - D) short-run theory of inflation.

Answer: C

Topic: Predictions of the Quantity Theory of Money

Skill: Recognition

- 13) The quantity theory of money asserts that inflation is the result of growth in
- A) the quantity of money.
 - B) potential GDP.
 - C) the natural rate of unemployment.
 - D) money wages.

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Recognition

- 14) The quantity theory of money asserts that an increase in the quantity of money
- A) will decrease the price level by an offsetting amount.
 - B) by n percent will lead to an increase in the price level by $n + 1$ percent.
 - C) will lead to an equal percentage increase in real GDP.
 - D) will lead to an equal percentage increase in the price level.

Answer: D

Topic: Predictions of the Quantity Theory of Money

Skill: Recognition

- 15) The quantity theory of money argues that, in the long run, the percentage change in money will create an equal percentage change in
- A) velocity.
 - B) real GDP.
 - C) potential GDP.
 - D) the price level.

Answer: D

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual

- 16) The quantity theory of money predicts that
- A) in the long run, a 10 percent increase in the quantity of money leads to a 10 percent increase in real GDP.
 - B) in the short run, a 10 percent increase in the quantity of money leads to a 10 percent increase in velocity.
 - C) in the long run, a 10 percent increase in the quantity of money leads to a 10 percent increase in velocity.
 - D) in the long run a 10 percent increase in the quantity of money leads to a 10 percent increase in the price level.

Answer: D

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual

- 17) According to the quantity theory of money, a 15 percent increase in the quantity of money causes a 15 percent rise in
- A) the price level.
 - B) the velocity of circulation.
 - C) real GDP.
 - D) the unemployment rate.

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual

- 18) According to the quantity theory of money, money growth and inflation are
- A) positively correlated.
 - B) negatively correlated.
 - C) independent, that is, not correlated.
 - D) positively if the inflation rate is positive and negatively correlated if the inflation rate is negative.

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual*

- 19) According to the quantity theory of money, in the long run
- A) an increase in the quantity of money creates an increase in prices but no additional increase in real GDP.
 - B) the quantity of money in a society will always be just the right amount.
 - C) an increase in the quantity of money creates an increase in real GDP.
 - D) None of the above answers are correct.

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual

- 20) According to the quantity theory of money, a 25 percent change in M , the quantity of money, leads to a 25 percent change in
- A) V , the velocity of circulation.
 - B) P , the price level.
 - C) Y , real GDP.
 - D) R , the interest rate.

Answer: B

Topic: Predictions of the Quantity Theory of Money

Skill: Analytical

- 21) Suppose the money growth rate is 3 percent, velocity is constant, and real GDP is growing at 2 percent. What is the inflation rate?
- A) 1 percent
 - B) 5 percent
 - C) 3 percent
 - D) 6 percent

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Analytical*

- 22) Read the following statements and determine if they are true or false.
- I. According to the quantity theory of money, an increase in the growth rate of the quantity of money increases inflation in the long run.
 - II. Historical and international data show that there is no correlation between inflation and money growth.
- A) I and II are both true.
 - B) I and II are both false.
 - C) I is true and II is false.
 - D) I is false and II is true.

Answer: C

Topic: Predictions of the Quantity Theory of Money

Skill: Conceptual

- 23) Looking at historical evidence from 1990 to 2005 for the United States and other countries, which of the following are true?
- I. There is a correlation between the growth rate of the quantity theory of money and the growth rate of real GDP.
 - II. There is a correlation between the growth rate of the quantity theory of money and the inflation rate.
- A) Only I is true.
 - B) Only II is true.
 - C) Both I and II are true.
 - D) Neither I or II is true.

Answer: B

Topic: International Evidence on the Quantity Theory of Money

Skill: Conceptual

- 24) According to the quantity theory, in the long run, an increase in the growth rate of _____ leads to an increase in the _____.
- A) real GDP; inflation rate
 - B) the quantity of money; growth rate of real GDP
 - C) the quantity of money; inflation rate
 - D) real GDP; growth rate of velocity

Answer: C

Topic: Study Guide Question, Long-Run Effects of Change in Quantity of \$

Skill: Conceptual

- 25) The quantity theory of money is the idea that in the long run
- A) the quantity of money is determined by banks.
 - B) the quantity of money serves as a good indicator of how well money functions as a store of value.
 - C) the quantity of money determines real GDP.
 - D) an increase in the growth rate of the quantity of money leads to an equal increase in the inflation rate.

Answer: D

Topic: Study Guide Question, Quantity Theory of Money

Skill: Recognition

- 26) Nominal GDP, PY , is \$7.5 trillion. The quantity of money is \$3 trillion. The velocity of circulation is
- A) 22.5.
 - B) 10.5.
 - C) 2.5.
 - D) 3.

Answer: C

Topic: Study Guide Question, The Quantity Theory of Money

Skill: Analytical

- 27) According to the quantity theory of money, in the long run, an increase in the quantity of money results in an equal percentage increase in _____.
- A) the price level
 - B) the growth rate of real GDP
 - C) the inflation level
 - D) the growth rate of potential GDP

Answer: A

Topic: Predictions of the Quantity Theory of Money

Skill: Recognition

- 28) The quantity of money in an economy is \$9 million, and the velocity of circulation is 3. Nominal GDP in this economy is _____.
- A) \$6 million
 - B) \$9 million
 - C) \$3 million
 - D) \$27 million

Answer: D

Topic: Equation of Exchange

Skill: Analytical